

Message Text

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44

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 L-03 NSC-10 SS-20 STR-08

CEA-02 DRC-01 /146 W

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P R 141600Z NOV 73

FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC PRIORITY 3639

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMCONSUL ZURICH

LIMITED OFFICIAL USE LUXEMBOURG 0781

E.O. 11652 N/A

TAGS: EFIN, LU

SUBJ: GOL CONCERN OVER FAILURE OF NATIONAL BANK OF SAN DIEGO

PASS FDIC

1. WE HAVE RECEIVED THE FOLLOWING NOTE FROM ALBERT DONDELINGER, LUXEMBOURG BANK COMMISSIONER, EXPRESSING HIS CONCERN OVER THE BANKRUPTCY OF THE NATIONAL BANK OF SAN DIEGO AND THE REPORTED TREATMENT OF FOREIGN CREDITORS:

2. QUOTE I AM REALLY PREOCCUPIED BY THE WAY THE BANKRUPTCY OF THE NATIONAL BANK OF SAN DIEGO IS HANDLED. I HAVE THE IMPRESSION THAT THE FOREIGN CREDITORS OF THIS BANK ARE MISHANDLED. I HOPE THIS IS NOT TRUE. BEFORE TAKING ANY ACTION ON A POLITICAL LEVEL, I WOULD LIKE TO BE COMPLETELY INFORMED ABOUT THE SITUATION. AS A EUROPEAN ACTION IS NOT EXCLUDED, I FEEL THIS INFORMATION SHOULD BE CONSIDERED AS A MATTER OF URGENCY UNQUOTE.

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3. DONDELINGER, AS BANK COMMISSIONER, EXERTS AN ALMOST ONE-MAN RULE OVER BANKING REGULATIONS IN LUXEMBOURG. WE ARE SEEKING TO CLARIFY THE TYPE OF ACTION ENVISAGED BUT DONDELINGER IS PRESENTLY NOT IN LUXEMBOURG AND HIS STAFF REFUSES TO SPECULATE ON WHAT HE HAS IN MIND. WE BELIEVE, AND OUR BANKING SOURCES CONFIRM, THAT DONDELINGER COULD TAKE SEVERAL MEASURES THAT WOULD MAKE IT MORE DIFFICULT FOR SMALL TO MEDIUM SIZED AMERICAN BANKS TO OPERATE PROFITABLY IN LUXEMBOURG. IN THE FIRST INSTANCE, AMERICAN BANKS SEEKING TO SET UP OFFICES IN LUXEMBOURG COULD BE SUBJECTED TO CLOSER SCRUTINY THAN HAS HERETOFORE BEEN THE CASE. ALTHOUGH NO AMERICAN BANKS PRESENTLY HAVE APPLICATIONS BEFORE THE BANKING COMMISSION, WE KNOW THAT SEVERAL AMERICAN BANKS ARE INTERESTED IN ESTABLISHING OFFICES HERE. SECOND, IN THE ABSENCE OF GUARANTEES THAT FOREIGN CREDITORS WOULD HAVE EQUAL OPPORTUNITY TO RECOVER THEIR FUNDS IN THE EVENT OF A BANKRUPTCY, DONDELINGER COULD RAISE CAPITAL REQUIREMENTS (NOW 3 PERCENT OF OUTSTANDING LIABILITIES) AND TAKE OTHER ACTIONS OF A GENERAL HARASSING NATURE (I.E., MORE FREQUENT BANK AUDITS, MORE STRINGENT REPORTING REQUIREMENTS). ALTHOUGH THESE ACTIONS WOULD POSE NO MAJOR PROBLEMS FOR LARGE AMERICAN BANKS (BANK OF AMERICA, CHASE MANHATTAN), THEY COULD MAKE IT MORE DIFFICULT FOR MEDIUM SIZED AND SMALL AMERICAN BANKS TO OPERATE PROFITABLY HERE.

4. IT IS NOT IN THE GOL'S INTEREST TO OVERBURDEN THE GROWING BANKING COMMUNITY (NOW 66 BANKS WITH 80 ESTIMATED BY 1974) WITH RESTRICTIONS AS THE BANKING SECTOR REPRESENTS A SOURCE OF INCREASING REVENUE FOR THE GOVERNMENT. DONDELINGER, HOWEVER, WOULD RELUCTANTLY IMPOSE MORE STRINGENT RESTRICTIONS ON THE BANKING COMMUNITY, PARTICULARLY AMERICAN BANKS, TO INSURE THAT THE REPUTATION OF LUXEMBOURG AS A FINANCIAL CENTER WAS NOT DAMAGED BY A BANKRUPTCY OF SIMILAR MAGNITUDE TO THAT OF THE NATIONAL BANK OF SAN DIEGO.

5. WE REQUEST CURRENT INFORMATION AND CONTINUING REPORTS ON THE STATUS OF DEBTS OWED TO FOREIGN CREDITORS OF NATIONAL BANK OF SAN DIEGO. WE ARE PARTICULARLY INTERESTED IN INFORMATION THAT CAN BE USED TO COMBAT THE GENERAL IMPRESSION OBTAINED FROM PRESS REPORTS THAT FOREIGN CREDITORS ARE LIMITED OFFICIAL USE

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RECEIVING LESS FAVORABLE TREATMENT THAN US CREDITORS.FARKAS

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